INTER-OFFICE MEMO

COUNTY OF SAN BERNARDINO

DATE March 30, 1978

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County Administrative Officer

TO BOARD OF SUPERVISORS

SUBJECT COMPARATIVE ANALYSIS OF PROPOSITION 13 AND SENATE BILL 1

On February 13, this office presented a report analyzing the Jarvis-Gann Initiative (Proposition 13). Since then the Legislature has enacted a property tax relief measure (SB 1) which will become effective if Proposition 8 on the June ballot is approved <u>and</u> Proposition 13 is defeated.

After passage of SB 1, the Board requested this office to develop comparative information on both proposals, show the estimated impact on individual taxpayers, analyze the potential program impact if the County has a reduced overall income, and highlight some of the potential problems of equity among property taxpayers from the passage of Proposition 13.

OVERALL COMPARISON

The following provides basic comparative information on how the two measures impact various property taxpayers:

	Prop 8 (SB 1)	Prop 13
Single Family Homeowners	Tax rate reduced by 30%	Taxes reduced 1% of market value
Renters	Renter Income Tax Credit increased from \$37 to \$75	No direct relief
Senior Citizens	Expanded benefits for both homeowners and renters	No specific benefits
Rental Property	No direct relief	Taxes reduced to 1% of market value
Commercial and Industrial Property Owners	No direct relief	Taxes reduced to 1% of market value

As the chart shows, SB 1 "targets" property tax relief so that homeowners, renters and senior citizens will directly benefit from reduced property taxes. The 30% tax rate reduction in SB 1 will be based on 1978-79 tax rates. The operation of the revenue limits in the legislation will also result in further tax rate decreases in those jurisdictions with assessed value increases more than the cost-of-living factor.

In addition, as the program is being financed by existing State surplus funds, there are no direct tax increases offsetting the benefits. Reduced property taxes, however, do result in higher potential income taxes on an individual basis because of smaller deductions. The total Statewide property tax savings in the legislation is estimated at $1.4 billion.

Proposition 13, by limiting real property taxes to 1% of market value, would initially provide property tax reductions for all types of property owners. The reduction to 1% of market value in Proposition 13 will be based on 1975-76 values. There will therefore be a rollback in many individual property owners values which will result in further property tax reductions. It is anticipated that, Statewide, taxes on real property would be reduced about $7 billion. Unless this loss were made up through alternative revenues, programs in cities, counties, schools and other special districts which are supported with property tax proceeds would have to be reduced or eliminated.

Impact on Individual Taxpayers

The following table illustrates the initial impact on homes of various values from the implementation of either measure:

TABLE I

PROPERTY TAX REDUCTIONS
PROP 8 & PROP 13
(Based on Statewide Avg Tax Rate of $10.73)

Home Value	Current Property Tax	Prop 8 Property Tax Savings	Prop 13 Property Tax Savings
$ 30,000	$ 617	$ 196	$ 329
40,000	885	281	476
50,000	1,153	365	615
75,000	1,824	547	974
100,000	2,495	791	1,333

While initially Proposition 13 would reduce direct property taxes more than Proposition 8, the potential financing needed to replace the lost property taxes in Proposition 13 would mean added taxes in other areas.

Senior Citizen Tax Relief in SB 1

In addition to the 30% tax rate reduction allowed to all homeowners, SB 1 also expands the special tax relief benefits afforded to both senior citizen homeowners and renters.

Under current law, senior citizen homeowners may have part of their property tax rebated by the State. The amount of the rebate is based on a person's income and the amount of taxes paid. SB 1 expands the scale of benefits and increases the income levels eligible for assistance. Attachment I shows the increase in benefits.

A similar program has been in effect to provide senior citizen renters a direct rebate for taxes paid as part of their rent. If a person had income of less than $5,000, an amount was paid based on a sliding scale related to income. SB 1 has greatly expanded this program by raising the maximum income level from $5,000 to $13,000 for those eligible to receive rebates and changing the scale of benefits. Attachment II shows these comparative figures.

Proposition 13 Replacement Financing

Legislation has been introduced (SB 1569) to increase various State taxes to make up the lost $7 billion. That measure increases the sales tax by 1¢ and extends the tax to personal services, and increases personal income taxes by 20% and corporate taxes by 40%. These changes, combined with the State surplus funds already available to finance Proposition 8, would generate the needed $7 billion replacement revenue.

When the potential tax increases from SB 1569 are coupled with the savings from Proposition 13, it is entirely possible that the net tax savings from Proposition 8 may be greater than from Proposition 13. Table II illustrates the potential of tax savings and increases at various income levels from both proposals.

TABLE II

COMPARATIVE TAX REDUCTIONS AND INCREASES
PROP 8 AND PROP 13

		Property Tax Savings		Sales Tax Increase		State & Federal Income Tax Increase		Net Tax Change	
Income	Home Value	Prop 8	Prop 13	Prop 8	Prop 13	Prop 8	Prop 13	Prop 8	Prop 13
$ 15,000	$ 30,000	(196)	(329)	--	104	49	86	(147)	(139)
$ 25,000	$ 50,000	(365)	(615)	--	135	121	256	(244)	(224)
$ 50,000	$ 100,000	(791)	(1,333)	--	197	404	902	(387)	(234)
$100,000	$ 200,000	(1,581)	(2,708)	--	258	990	2,204	(591)	(246)

Service Impacts of Proposition 13

Proposition 13 does not provide for allocating the 1% property tax proceeds among local government, and SB 1569 contains a burdensome claiming process for local government to be reimbursed for the lost funds due to the limit.

Proposition 13 also requires a two-thirds vote of the Leglislature to enact new State taxes. It is, therefore, possible that a replacement revenue measure may not be able to pass before legislative ajournment. In that event, it might be necessary for local governments to scale back on some activities in accordance with the limited financing available from the 1% limit.

Based on current assessed values, it is estimated that limiting property taxes to 1% of value would result in about $178 million in lost revenue to jurisdictions within the County. With no allocation plan yet developed, it can be assumed that the revenue loss from the limit would be spread proportionately based on the current use of the property tax by various types of local government.

It is extremely unlikely that the 1% tax proceeds will ultimately be allocated in proportion to the current use of property taxes. Under the present system, jurisdictions vary in their relative dependence on the tax and in the services they provide. For instance, some cities offer many optional services and do not even levy a property tax. Others are heavily dependent on this source and provide only essential services. These disparities, based on local economic conditions, will ultimately have to be addressed if Proposition 13 is fully implemented

Table III shows the relative dependence of various governments within the County on the property tax and the estimated loss if the 1% limit were distributed proportionately.

TABLE III

SAN BERNARDINO COUNTY
USE OF PROPERTY TAX AND ESTIMATED LOSS

	% of Total Property Taxes	Loss from 1% Limit (Millions)
County	23.1	$ 41.2
Cities	8.4	15.0
Schools	50.0	89.1
Districts	18.5	33.0
Total	100.0	$ 178.3

The 1977-78 County General Fund property tax levy is $70.2 million. Utilizing these assumptions, it is estimated that the County would have about a 59% reduction in its property taxing ability. A $41.2 million loss would leave about $29 million to support County programs from this revenue source.

Table IV outlines the 1977-78 County General Fund Budget and the dependence of agency programs on the property tax.

TABLE IV

1977-78 GENERAL FUND BUDGET (000 omitted)

Agency	Approp.	Local Cost	Local Cost As % of Approp.
EIA	$ 6,379	$ 2,961	46
GSA	5,890	3,811	65
HCSA	37,730	18,982	50
HRA	99,993	20,867	21
L&J	53,930	45,712	85
PWA	14,147	9,970	70
Cap. Imp.	20,043	15,651	78
Other (Including Contingencies & Reserves)	22,648	21,826	96
Total	$260,760	$139,780	54
Less: Countywide non-allocated Revenue and Surplus	--	$ 69,584	
Tax Levy	--	$ 70,196	

As shown, County programs vary significantly in their dependence on the property tax. In addition, within each agency, there are both mandatory and non-mandatory program costs, and not all mandatory programs have required service levels which must be maintained.

Some County programs, specifically welfare costs and our Medi-Cal and SSI contributions are mandatory in both the requirement to participate and the level of cost and service provided. There is nothing in Proposition 13 which would release us from these obligations.

In addition, State law permits the court system to spend the funds necessary to support its activity with very limited control allowed by the Board. Although in the massive governmental restructuring inherent in Proposition 13, the court would undoubtedly cooperate to economize wherever possible, this function must be considered as having to be financed at current levels in this analysis.

A third element of non-controllable costs are the long-term contractual obligations the County has for joint powers lease agreements. These amount to $1.2 million in the 1977-78 budget.

The above outlined programs, over which the County has little cost control capability, total more than $40 million or 57% of our tax levy as shown in Table V.

TABLE V

SELECTED MANDATORY COSTS - 1977-78 BUDGET

	Local Cost
Medi-Cal	$ 10,526,598
SSI/SSP	4,246,415
Welfare Aids	13,568,372
Welfare Administration	1,693,825
Superior, Municipal and Justice Courts	8,763,971
Joint Powers Obligations	1,206,585
Total	$ 40,005,766

The $40 million now raised to support these activities is more than $11 million above the maximum property tax funds available under Proposition 13. If the State did not provide any replacement revenue, the County would have to eliminate program expenditures to reduce the local cost of other agency programs and divert whatever discretionary revenues are available to finance required spending.

The Board does not, however, have full authority to divert some of our revenue. This year, the County will receive more than $16.4 million in special revenues such as Federal Commmunity Development, Manpower, and Aviation funds and $17.9 million in State and Federal Road and Transportation support. These funds are restricted to specific program

uses by State and Federal law and could not be diverted to support other programs which are more heavily dependent on the property tax. In addition, some activities are already partially financed with State funds which require our local cost participation to conduct.

Specific reductions would ultimately be up to the Board. Such reductions would almost certainly impact most heavily on non-mandated activities such as parks, museums, and airports, internal support programs such as maintenance, and in those required activities where the County has service level discretion like general law enforcement. Also, the Capital Improvement program would have to be effectively eliminated to free-up those funds for mandatory programs.

It would probably not be possible to raise regulatory and other fee structures to generate enough revenue to substantially offset the loss of tax revenues since the law requires that our fees not exceed cost and many fees, such as park fees, are in programs which would probably be scaled back because of the non-mandatory nature of the activity. In addition, fee structures eventually can be raised so high that the public chooses not to avail itself of a program because of the high cost. In those cases, the County would have no choice but to eliminate activities.

Special Districts

The 1977-78 property tax levy for County-governed special districts is $21.9 million or 40% of the total requirements. In general, these programs are more dependent on the property tax than any other type of local government.

As in the case of any Countywide cost analysis, without a legislatively enacted allocation formula, it is impossible to accurately forecast the impact of Proposition 13 on either an individual district or all of them collectively. Within the district program, the determination between mandatory and optional activities will certainly be reviewed as part of an allocation plan.

If the limited proceeds are distributed proportionately, however, and no replacement revenue were available, the districts' property tax income loss could be as much as $13 million.

A series of actions might be taken to assist in avoiding some service cutbacks.

-- Where possible and permissible, user fee structures could be implemented or increased to pay for such services as water delivery and sewers.

-- Large scale district consolidations might make some programs more economically viable and reduce the relative cost.

-- Annexation of territory to cities which have relatively less property tax dependence would shift municipal service costs to a sales tax base.

Taxpayer Equity

While Proposition 13 would initially reduce property taxes, it would also have the effect of creating substantial inequities among groups of property taxpayers over time as well as Constitutionally freezing already existing inequities into the system.

Tax Reduction Would Be Unequal

In this County, the total tax rate ranges from $21,79 to $7.40. Under a 1% concept, a uniform rate of $4.00 would be applied. Thus, some taxpayers would have as much as an 82% reduction in taxes and others would have a 46% reduction.

Shift Tax Base

Currently, homeowners in this County pay about 41% of the property taxes. Business, including rental residences, pay about 59%

Under Proposition 13, property could only be revalued above a 2% annual inflation increase when sold. The ratio of homeowner/business tax burden would shift over time as homes tend to be sold much more frequently than business property. Many large industrial plants would increase at 2% per year because they are not resold. On the average, homes tend to be sold about every seven years. Thus, over such a time span, the taxes on a factory might go up by 14% while those taxes on a home would go up 50% to 100% depending on the inflation rate and when it was sold.

Mobility is Penalized

Those persons who move more frequently because of job transfers, etc., would pay much higher taxes. When a residence is purchased, it is revalued up to full value. Therefore, a new family moving into a community will pay substantially more taxes than longer-time residents.

Mobilehome Owners

Mobilehomes remain subject to the motor vehicle in-lieu tax under the initiative, at an effective tax rate of 2%, while all other residential property would be taxed at an effective rate of 1%. The value of the mobilehome would not be frozen, but would continue to be subject to a statutory depreciation schedule. Since such values decline over time, older mobilehomes would likely be taxed at a level equivalent to real property, while newer mobilehomes would likely be taxed higher than real property.

Unequal Taxation of Similar Homes

The revaluation of property only when sold has the effect of unequal taxation on neighboring houses, which are otherwise identical. Two property owners would pay vastly different taxes because one home was sold when the other remains under the same ownership. Both residents, however, receive the same services from local government.

Table VI best illustrates this concept.

TABLE VI

COMPARISON OF TAX OBLIGATION ON RESALE OF HOMES

	House A Retained By Same Owner	House B Sold Every 3 Years (a)	Difference	
1967				
Taxable Value	$ 30,000	$ 30,000	--	
1% tax (b)	288	288	--	
1970				
Taxable Value	31,800	35,700	3,900	(12%)
1% tax	310	359	49	(16%)
1974				
Taxable Value	34,200	45,200	11,000	(32%)
1% tax	340	478	138	(41%)
1977				
Taxable Value	36,000	56,900	20,900	(58%)
1% tax	363	624	261	(72%)

(a) Based on CPI Housing Increases
(B) Based on $4.00 general rate plus $1.00 debt rate.

SB 1 Implementation

Since its passage, the Assessor, Auditor, Treasurer-Tax Collector, Data Processing and this office have been reviewing SB 1 to determine the work necessary to implement it and begin making changes to the various processes associated with the property tax system. The changes to the system involve splitting the assessment roll to determine the assessed value of Homeowner Exemption qualified property from other types of property. This is needed for the Auditor to calculate the maximum property tax revenue permitted each jurisdiction under the new revenue limits imposed by the statute.

The review has revealed a number of technical problems in the bill. These have also been identified by several other counties. The State Controller's office, the Board of Equalization, and staffs of the various legislative committees all agree that technical "clean-up" legislation is immediately necessary. The Auditor and Assessor have already notified the State of the areas of confusion and uncertainty related to implementing SB 1. In addition, CSAC is sponsoring meetings throughout the State to bring State and County representatives together to determine the scope of a clean-up bill and refine the implementation procedures.

It is estimated that the implementation costs of SB 1 will be about $200,000. About half of this is for changes in computer programs in the assessment and tax system. In addition, special handling of certain properties will require about $80,000 of staff time in the Assessor's office. The legislation provides for the State to reimburse us for the costs of implementation but a specific appropriation will be required.

It is not anticipated that any significant added permanent staff will be needed to administer this program on an ongoing basis.

Conclusion

Even with the passage of a $1.4 billion property tax relief program, there continues to be a great deal of uncertainty as respects next year's County budget and financing capability. As reported earlier and as further highlighted in

this report, Proposition 13 continues to present substantial questions both as to its intent and ultimate impact.

If Proposition 13 is approved and the State Legislature fails to enact appropriate legislation to either allocate the allowable tax proceeds or provide replacement revenue, there will be an almost unworkable financial condition for local government early in 1978-79. Because the consequences would be so devastating for vital public services from legislative inaction, the probabilities are extremely slight that all local governments throughout California would be faced with the magnitude of service cuts which have been outlined.

This office will ask agencies to identify possible program curtailments and budget reductions as part of an overall program to plan for the possible implementation of Proposition 13.

We will know the outcome of the election before the budget must be presented in late June. Immediately following the election, if Proposition 13 is approved, a detailed program for curtailment will be presented.

EG:nm

Attachments

SENIOR CITIZENS HOMEOWNER PROPERTY TAX ASSISTANCE

Income Level	% of Tax Rebated to Taxpayers: Pre-SB 1(a)	% of Tax Rebated to Taxpayers: Pursuant to SB 1(b)	% Relative Benefit Increase
$1,000	96	96	-
2,000	96	96	-
3,000	96	96	-
4,000	86	96	12
5,000	76	86	13
6,000	57	76	36
7,000	37	61	65
8,000	22	46	109
9,000	12	34	183
10,000	8	24	200
11,000	6	20	233
12,000	4	15	275
13,000	-	10	-

(a) Assistance limited to taxes paid on the first $8,500 of taxable assessed value.

(b) Maximum benefit to any taxpayer is $1,500.

SENIOR CITIZEN RENTERS

PROPERTY TAX ASSISTANCE

Amount of Rebate

Income	Pre-SB 1	Pursuant to SB 1	Amount Benefit Increase
$1,000	$211	$240	$ 29
2,000	178	240	62
3,000	112	240	128
4,000	46	240	194
5,000	9	215	206
6,000	-	190	190
7,000	-	152	152
8,000	-	115	115
9,000	-	85	85
10,000	-	60	60
11,000	-	50	50
12,000	-	37	37
13,000	-	25	25